

Volume No. 1—Policies and Procedures	TOPIC NO	30210
Function No. 30000—Fixed Asset Accounting	TOPIC	Acquisition Valuation
Section No. 30200—Asset Acquisition	DATE	July 2003

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Overview

Introduction The purpose of this topic is to provide guidance in establishing accurate costs to be recorded for asset acquisitions. Once an asset has been acquired, under an approved method, it must be recorded at an appropriate value in order to properly control, manage, maintain and report on it. (See CAPP Topic No. 30205—*Acquisition Method.*)

Policy

General It is the responsibility of each State agency and institution to ensure that all asset acquisitions are recorded at the asset's proper value. Documentation must be maintained in support of each asset value assigned.

Each fiscal year, the Comprehensive Annual Financial Report (CAFR) of the Commonwealth is prepared by the Department of Accounts and audited by the Auditor of Public Accounts. FAACS is the source for much of the fixed asset information that is included in the CAFR. Accordingly, it is extremely important that the fixed assets of the Commonwealth are properly valued and accurately recorded in FAACS.

Accounting information should be based on source documents. The voucher that represents payment to the vendor or a series of invoices supporting payment to a contractor are the primary forms of source documentation. This underlying source documentation “vouches for” or confirms what an asset actually cost and provides an auditable means of verifying historical cost, which is required for compliance with generally accepted accounting principles (GAAP). To provide an audit trail, copies of relevant source documents should be retained.

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Policy, Continued

General continued

In addition to presentation of fixed asset valued at historical cost, the CAFR includes accumulated depreciation and depreciation expense for these assets. It is also important to accurately record acquisition date and ensure that a reasonably estimated useful life is assigned and a reasonably estimated salvage value (if any) is recorded. Useful life for an asset is determined by choice of an appropriate nomenclature code. If an appropriate nomenclature code is not available in the table, a request should be made for DOA to establish a new code for the asset with a useful life that fits agency use patterns. Refer to CAPP Topics 30315, *Nomenclature Codes*; 30605, *Useful Life*; and 30610, *Depreciation Methods and Calculation*.

When assets have been disposed of, it is important to record the disposal in FAACS in a timely manner and with an accurate disposal date. Disposal removes the asset and accumulated depreciation balances from FAACS and provides an audit trail for disposals. Refer to CAPP Topic 30805, *Disposal Management*.

See also the “Procedures” section of this topic for further information on valuation methods.

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Procedures

Acquisition Value

The acquisition value for each fixed asset item is generally measured by the cash outlay required to obtain the asset. **Fixed assets should be valued at actual cost or, if the cost is not readily determined, at estimated cost.** Acquisition cost includes the purchase price or construction cost, as well as costs incurred to place an asset in its intended location and in an operable condition. Such costs associated with an asset would include:

- freight and transportation charges
- installation costs
- site preparation expenditures
- professional fees (including title costs and surveying fees if appropriate)
- legal costs directly attributable to asset acquisition, and
- cost of necessary easements and right-of-ways.

The basic cost or value to be recorded for each type of acquired asset is shown below. Add any appropriate associated cost detailed above to the basic value.

- **Purchased assets** - recorded at invoice or contract price plus all other ancillary costs expenditures charged to the appropriate Commonwealth Accounting and Reporting System (CARS) object codes or local ledger account.

Ensure that the acquisition cost reported on the **CARS ACTR0463 Report, "Potential Fixed Assets,"** does not represent a partial payment. Procedures should be developed to enable property management personnel to match the listing of potential fixed assets with records of outstanding purchase orders for fixed asset item. Partial payment information should not be entered into the Fixed Asset Accounting and Control System (FAACS).

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Procedures, Continued

Acquisition

Value continued

Recognize acquisition cost based on individual unit prices. Assets should not be grouped. For example, in acquiring equipment, if three personal computers (PC) are acquired at \$2,000 each, this would not be a capital asset of \$6,000 consisting of 3 PC's. Instead, it would be 3 separate acquisitions of \$2,000. Each PC would be entered into FAACS as a separate controllable item.

- **Donated Assets** - Recorded at the fair market value. DIT will assist in establishing the appropriate fair market value for data processing equipment.
- **Transfers From Other State Agencies** - If handled as a sale from one agency to the other, recorded at the sales price of the transferred item when acquired as shown on an Interagency Transfer Invoice (IAT). If handled as a transfer between related agencies, it is permissible to record the asset under the new agency at its original historical cost and acquisition date.
- **Federal and State Surplus Property** - The acquisition value of surplus property is the current purchase price of the item, including any costs associated with making the asset operational. The surplus asset value is supplied by the Department of General Services, if needed. All Federal and State surplus property require internal appraisal by purchasing personnel before entry into FAACS.
- **Internal/External Construction** - All costs directly related to the construction and charged to the related CARS or local ledger account (i.e., the value of labor, materials and other costs associated with the construction and installation of the item and/or all contract related costs). Such charges should include all associated costs in the first paragraph of this subsection plus the following:
 - Insurance premiums
 - Interest expense incurred during construction
 - Engineering, architectural and other fees
 - Reasonably allocated overhead for heavy equipment used in construction, and
 - Adjustments resulting from final payments on construction contracts that were recorded as assets at the time they became operational.

Amounts should be recorded in Construction-in-Progress annually until the project is complete. Upon completion the total cost should be transferred to the appropriate fixed asset account. See CAPP Topic 30310, *Asset Categorization*.

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Procedures, Continued

Acquisition Value continued

- **Lease Purchase** - For assets acquired using installment purchases recorded at the present value of all installment payments at the rate of interest implicit in the transaction. For assets acquired under lease financing arrangements, see CAPP Topic No. 31220—*LAS Reporting*.
- **Trade-ins** - The cost of the new asset is the sum of the cash expended plus the cash equivalent of the value of old asset given in exchange. Value placed on the old asset may be book value, trade-in allowance or estimated fair value at the time of trade-in.
- **Forfeiture or Condemnation** - The lesser of 1) the asset's fair market value at the date of forfeiture or 2) the amount owed by the borrower together with costs incurred by the Commonwealth to obtain the forfeiture and to put the asset into service.

Valuation Methods

The desired method of valuation is actual (historical) cost. Locate this data by retrieving original invoices, purchase orders, check copies, contracts, minutes, or auditor's workpapers. However, if the agency is unable to establish actual cost after a reasonable expenditure of effort, rely upon estimated cost data. Some methods available for ascertaining estimated cost are:

- Engineering Studies
- Catalogue Prices
- Vendor Price Lists
- Deflation Indices
- Internal Appraisal via Purchasing Department
- External Appraisal
- Matching to Previously Costed Items

Give consideration to assets donated to the agency. Their value should be based on the fair market value at the acquisition date. Sources of information for donated assets can be obtained from the donor, minutes, and appraisals.

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Salvage Value

The salvage value of an asset is the estimated value it will have when it reaches the end of its useful life. Some assets are not likely to have a salvage value at the end of their useful life. This is particularly true for assets that are subject to obsolescence such as information technology related assets. For example, due to continuous changes in technology, computers are often worthless at the time of replacement and, therefore, have no salvage value.

On the other hand, some types of assets, vehicles, for example, are often still in working order when replaced and generally are sold or auctioned for some value.

Agencies should develop and periodically update a methodology for estimating salvage value that is based on the type of asset, its obsolescence and degree of usefulness at disposal and the nature of the disposal process. Assets that are typically sold or auctioned at the time of replacement should be assigned a reasonable salvage value. This estimate should be based on actual values received.

The estimate of useful life chosen to indicate normal replacement policy should also be a factor in estimating salvage value.

Effective July 1, 2003, salvage value will become a required field in FAACS. However, zero will be an allowed value.

Avoid Overstating Asset Balances

When it becomes evident that obsolete material or damaged assets are recorded as capitalized assets in FAACS, reduce the value reported in FAACS to the asset's net realizable value in order to avoid overstating asset balances. This may entail changing the status of the asset from capitalized to controlled. Also consider, given the type of asset and/or the occurrence that led to the decline in value, whether additional action is necessary to ensure that asset values are not overstated. Such action would involve reviewing the status and condition of similar assets or assets impacted by a similar event. Materially overstated assets should be written down to net realizable value.

Additional valuation information and documentation is available upon request to the Financial Reporting Section.

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Internal Control

General

Each agency and institution should implement internal control procedures to ensure that:

- All assets are recorded at their proper value.
- The method of valuation is properly documented.
- All assets are periodically reviewed to avoid material overstatement.

Records Retention

General


Fiscal records related to managing fixed assets should be retained for a period of 2 years plus current fiscal year, or until audited, whichever is greater. However, for pending, ongoing, or unresolved litigation, audits or claims, retain documentation until completion, resolution, or negotiation of settlements.

Destruction of records must be in accordance with policies and procedures of the Records Management Section, The Library of Virginia.

DOA Contact

Contact

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Subject Cross References

References

CAPP Topic No. 30205—*Acquisition Method*
 CAPP Topic No. 30310—*Asset Categorization*
 CAPP Topic No. 30315—*Nomenclature Codes*
 CAPP Topic No. 30605—*Useful Life*
 CAPP Topic No. 30610—*Depreciation Methods and Calculation*
 CAPP Topic No. 30805—*Disposal Management*
 CAPP Topic No. 31220—*LAS Reporting*
